

# City of Detroit

## CITY COUNCIL

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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *ICJ*

DATE: November 1, 2007

RE: Contract No. 2746686-Tax Management Associates, Inc.-Personal Property Discovery, Not to Exceed \$3 Million, 100% Funding  
**(Recommend Approval)**

The Detroit City Council Budget, Finance and Audit Committee received this contract on Monday, October 29 and it was referred to the Fiscal Analysis Division for review.

The committee members agreed to put the contract on the Formal Session for Tuesday, November 6 for a vote because it is urgent, which we will explain why later in the report. But the committee members are waiting for this report to determine if there are any major problems that would warrant pulling the contract from the formal.

### **Contract Description**

The Tax Management Associates, Inc. (TMA) contract is a professional services contract for the purpose of discovering unreported commercial and industrial personal property. TMA would use various methodologies, such as electronic canvassing of business personal property tax returns and real property parcels, and canvassing databases and electronic resources from government providers, publicly accessible databases, or private resources, to "discover" businesses with the purpose of adding any unreported business personal property to the City's tax roll. A business contacted by letter would be informed of the statutory responsibility to file a business personal property rendition and the City's intent to assess the business for personal property at that location. TMA would assist the City in contacting and following up with discovered businesses and creating a database of these businesses.

The contract allows for the City to subscribe to TMA's in-house business personal property valuation system, called the Cost Assessment Valuation System, or CAVS, to more reliably determine the taxable value of any personal property associated with a particular business type. We do not know what the

annual subscription fee would be. The Board of Assessors would determine if it is cost effective to subscribe to the system. We understand the Assessor would estimate the value of any unreported business personal property. The burden of proof is with the taxpayer to determine a value otherwise. The Board of Assessors could change the valuation based on any proof. So, the CAVS maybe essential in determining what any final value should be.

For businesses that fail to file a business personal property tax return, or who fail to file a return perceived as accurate by the City staff, the contract's Scope of Services mentions TMA could also provide audit services. Audits are typically recommended for businesses with a reported or assumed true cash value greater than \$50,000. TMA would conduct the audit services under a separate contract. If businesses were audited, TMA audit staff would allow the City staff to attend all parts of the audit process in order to train them in these additional audit methodologies. The Board of Assessors would recommend if any accounts should be audited, and any TMA audit contract would come to Council for approval.

Finally, the TMA contract provides City staff training. As part of the discovery project, TMA would train City staff in the discovery process, the listing, and the assessment of business personal property accounts. Based on City request, TMA would train City staff in TMA methods to ensure the City could successfully implement discovery strategies after the termination of the project. On January 31, 2008, TMA would provide a training manual to City staff on its discovery process.

### **Fee Schedule and Cost/Benefit of TMA Contract**

The TMA contract is basically a "no cost" contract. It is a one-year contract, with an option to renew for one year. Per Exhibit B-Fee Schedule of the contract, TMA charges a fee based only on business personal property discovered and added to the City's tax roll. For business personal property with a true cash value below \$10,000, TMA's fee would be \$200. \$300 is the fee for business personal property with a true cash value above \$10,000.

TMA has estimated that 10,000 businesses are currently missing from the City's tax roll and could be added back based on the discovery services provided the City under this contract. Approximately 40% are expected to have less than \$10,000 in true cash value, and the remaining 60% would be greater than \$10,000. Table 1 below depicts cost versus projected revenue from this discovery project.

Table 1					
Cost of Services					
Accounts with True Cash Value (TCV) < \$10,000: fee is <b>\$200</b> per account					
Accounts with TCV > \$10,000: fee is <b>\$300</b> per account					
Number of Discovered Accounts	Average TCV	City Revenue (47 mills)	Per Account Cost	Total Cost	Net City Revenue (90% Collection)
40%	4,000	\$10,000	\$200	\$800,000	\$126,000
60%	6,000	\$20,000	\$300	\$1,800,000	\$918,000
Totals	10,000	\$3,760,000		\$2,600,000	<b>\$1,044,000</b>

Based on Table 1, the City could net approximately \$1.04 million from the one year of service under this contract. After the first year cost, the City would receive property tax revenue from the discovered business personal property until it fully depreciates.

In addition, the Board of Assessors could petition the State Tax Commission to place any discovered business personal property on the City's tax roll for the current year, **and two years prior**. Under this contract, TMA would process the necessary paperwork for the Assessor to sign for submission to the State Tax Commission, at no charge to the City. Therefore, the City could recoup additional revenue from discovered business personal property from previous years as well. So, it appears the benefits far outweigh the cost of the service.

There is some risk, however. The above analysis assumes a 90% collection rate. The actual collection rate could come in lower. But the Assessment Division would rely on the Finance Department's in-house enhanced collection efforts for the City's business personal property accounts. Council should note that only delinquent real property taxes go to Wayne County for collection. Delinquent personal property accounts do not.

It should be noted too that even though the TMA contract is not to exceed \$3 million, the Administration is asking for Council to approve a budget amendment for approximately \$2,042,100 to cover two-thirds of this contract for now. It is assumed the final one-third would be covered in next year's budget, if Council approved this contract. The budget amendment also appeared before the Budget, Finance and Audit Committee this past Monday. The Fiscal Analysis Division continues to have outstanding questions regarding this amendment. The results of our analysis will be submitted to Council under separate cover.

Meanwhile, Council could still consider approving this contract during the formal session on Tuesday, November 6<sup>th</sup>, since there is over \$3.9 million currently available in the Assessment Division's appropriation in Finance to accommodate the TMA contract. And, it is very possible our concerns on the budget amendment could be addressed and Council could vote on it before you go on your winter recess.

### **Urgency of TMA Contract and Rationale for TMA**

Linda Bade, Chief Assessor, feels that the number of personal property accounts and valuation seem out of line with normal growth patterns based on a ten-year review of the accounts. Personal property accounts went from 21,796 valued at \$1,603,340,500 in 1997 to 13,766 valued at \$1,646,721,974 in 2007. The cumulative growth of the personal property value was only 2.7% in 10 years. Ms. Bade felt the decline in the number of accounts was too steep to simply be attributed to out-of-business. She also indicated that the State Tax Commission has expressed some concern.

Ms. Bade researched remedies through her Assessor colleagues in the region and state. She learned that TMA was respected in the field of personal property taxation, familiar with the City's operation and software, performed well during the audit contract previously with the City, and had a proven program of work to discover unreported personal property. Ms. Bade discovered that while CPA firms routinely perform audit functions, they rarely, if ever, specialize in discovery for taxation purposes.

Council should be reminded that you approved a TMA personal property audit contract in April 2004 for the purpose of ensuring the accuracy of the City's existing personal property. The contract was for \$744,000 and it was grant funded by the State. TMA conducted similar services throughout the State. This audit allowed for corrections to the City's tax roll for the years 2005, 2006 and 2007.

As a result of this audit function, TMA assisted the City in increasing its personal property taxable value for the period 2005 through 2007 by over \$7 million. In addition, net tax revenue to the City was approximately \$305,500 in year 2005 alone. Documentation supporting these figures is located in our office for review.

Therefore, given the decline in personal property accounts and minimal growth in the City's personal property valuation, Assessors elected not to RFP this project, but instead desired to hire TMA as a sole source contractor because of their specialized expertise, previous experience with the City and reputation, and discover unreported personal property accounts as soon as possible by December 31, 2007, or the tax day, in order to add these accounts to the City's 2008 tax roll. In addition, Ms. Bade feels the services provided by this contract should help give a better understanding of the personal property tax revenue and



also send the message that the City intends to assess fairly across a class of property.

The Fiscal Analysis Division feels the urgency of hiring this contractor, as a sole source is reasonable.

It should be noted that TMA is headquartered in Charlotte, North Carolina. However, its business personal property audit division has been in existence for 20 years, and has now completed 100,000 audits for its state and local government clients. TMA's audit division is now the nation's largest provider of these services with over 400 clients in 13 states. In addition, during this time period, TMA discovered \$29 billion in taxable personal property, which has added \$450 million in additional tax services to local jurisdictions. TMA has conducted statewide projects in both Michigan and Kentucky.

### **TMA Contract and the City's Privatization Ordinance**

The Assessment Division currently has only four appraisers working in the personal property section. TMA has over 50 auditors to help in this project. Therefore, Ms. Bade feels the Assessment Division is incapable of providing the services proposed by TMA, especially in this short time period to get as much discovered unreported business personal property in a database by December 31<sup>st</sup> to be added on the City's 2008 tax roll.

We agree with the Research and Analysis Division that the TMA contract provides services to expand the capacity of the Assessments Division and provides training for City employees to provide these same services. Therefore, this contract is not a privatization of services provided by current City employees.

If Council should approve the TMA contract, and based on contract results, Finance may request for additional staff in the Assessment Division, along with additional equipment and training, to bring the discovery process more, or completely, in-house in a future budget request.

### **Recommendation**

Based on the above analysis, the Fiscal Analysis Division recommends approval of the TMA personal property discovery contract.

cc: Council Divisions  
Auditor General's Office  
Roger Short, Chief Financial Officer  
Linda Bade, Chief Assessor  
Pamela Scales, Budget Director  
Kandia Milton, Mayor's Office